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July 17, 1998

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JUL 17 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street NW Room 222
Washington DC 20554

In the Matter of:)	
)	
1998 Biennial Regulatory Review)	CC Docket No. 98-81
Of Accounting and Cost)	
Allocation Requirements)	
)	
United States Telephone Association)	ASD File No. 98-64
Petition for Rulemaking)	

Dear Ms. Salas:

Enclosed are an original, 9 copies plus two extra public copies, and a diskette copy of the Comments of Cincinnati Bell Telephone Company's Notice of Proposed Rulemaking in the above referenced proceeding. A duplicate original copy of this letter and attached Comments is also provided. Please date stamp this as acknowledgment of its receipt and return it. Questions regarding these Comments may be directed to John Wilcox at the above address or by telephone on (513) 397-5569.

Sincerely,

David L. Meier

Enclosure

cc: Warren Firschein, Accounting Safeguards Division
Common Carrier Bureau, (paper copy and diskette enclosed)
International Transcription Services

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Before The
Federal Communications Commission
Washington, D.C. 20554

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COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

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July 17, 1998

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SUMMARY

In this NPRM, the Commission is proposing as part of the biennial review to modify the accounting and cost allocation rules. Cincinnati Bell Telephone (“CBT”), an independent, mid-size local exchange carrier, applauds this action and believes it is a significant first step in reducing the regulatory burden on incumbent local exchange carriers (“ILECs”). CBT fully supports all the proposed changes and recommends implementation by the Commission.

Of particular note, CBT supports the new revenue threshold for USOA classification of Class A and Class B companies. CBT urges the Commission to continue this effort by examining and raising the thresholds for ARMIS reporting and Cost Allocation Manual requirements. The elimination of these unnecessary and duplicative reporting requirements will promote competition as well as further investment in new services. CBT likewise concurs with the Commission’s proposal to reduce the cost

allocation auditing requirements: both the frequency and the type of audit. The Commission's experience over the last decade supports this proposal, and it will reduce CBT's Part 64 auditing costs by at least 50%.

The accounting changes proposed in the NPRM are also good steps toward eliminating unnecessary requirements. However, CBT urges the Commission to go beyond this point and consider further changes. The Independent Telephone & Telecommunications Alliance (ITTA) filed a Petition for Forbearance on February 17, 1998, recommending changes in accounting, ARMIS, Part 69, and other areas, which will reduce unnecessary and duplicative regulations. The current and ever growing competitive environment requires this streamlining of accounting regulations to ensure a level playing field.

Additionally, CBT recommends the streamlining of the affiliate transaction rules (47 CFR 32.27(c)) to eliminate the comparison process of estimated fair market value with fully distributed costs, and the application of these rules to nonregulated services. These requirements do not protect against cross subsidization or otherwise benefit the ratepayer, and yet they are extremely expensive to follow. The elimination of these requirements will be another significant step by the Commission in fulfilling its commitments under Section 11 of the Communications Act.

While the above initiatives support the goal of eliminating costly and duplicative regulation, CBT notes that the Commission currently has two open dockets, CC Docket No. 97-212 and CC Docket No. 98-56, which are proposing the creation of new detailed accounts for interconnection and new measurement and reporting requirements for Operations Support Systems, Interconnection, and Operator Services and Directory

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Assistance. The rules proposed in these dockets would undermine the goal of the Biennial Review, and therefore, the Commission needs to carefully consider its orders on these dockets so they may also contribute to the reduction and elimination of unnecessary requirements.

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COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

INTRODUCTION

1. Cincinnati Bell Telephone ("CBT"), an independent, mid-size local exchange carrier, submits these Comments in response to the Commission's June 17, 1998, Notice of Proposed Rulemaking in the above-captioned proceeding. In this proceeding the Commission seeks "as part of the biennial review to modify {the} accounting and cost allocation rules".¹ In summary, the Commission:

proposes to raise the threshold significantly for required Class A accounting thus allowing mid-sized carriers currently required to use Class A accounts to use the more streamlined Class B accounts. In addition, we

¹ Notice of Proposed Rulemaking, *In the Matters of 1998 Biennial Regulatory Review-Review of Accounting and Cost Allocation Requirements*, FCC 98-108, CC Docket No. 98-81 (at para. 2) (hereinafter "NPRM at para. ____").

propose to establish less burdensome cost allocation manual ("CAM") procedures for the mid-sized incumbent local exchange carriers ("LECs") and to reduce the frequency with which independent audits of the cost allocations based upon the CAMs are required. Finally, we propose several changes to our Uniform System of Accounts ("USOA") to reduce accounting requirements and to eliminate or consolidate accounts.²

2. CBT is particularly pleased to see the Commission continuing to act and acknowledge the uniqueness of the small and mid-size companies. The proposals in the NPRM are a significant step in developing policies that will enable mid-size companies to be effective competitors, and CBT supports all of the proposed changes. The Commission should view this as only the first step in a continuing effort to eliminate burdensome accounting and reporting requirements.

COMPANY CLASSIFICATION FOR ACCOUNTING PURPOSES

3. The NPRM proposes changing the accounting classification threshold from the current \$112 million to \$7 billion of regulated operating revenues. This threshold determines when companies must follow the detailed, Class A book of accounts (USOA). The Commission has had over a decade of experience with mid-size companies following the accounting, reporting, and cost allocation rules. The companies have undergone numerous audits by the Common Carrier Bureau, independent auditing firms, and state commissions. In other words, the Commission has a very strong foundation of real life, actual experiences upon which to weigh and consider alternatives and to realistically evaluate the impact of change. CBT concurs with the Commission's conclusions and supports this proposed change in the indexed revenue threshold to \$7 billion.

² NPRM para. 2.

OTHER REQUIREMENTS THAT CAN BE REDUCED OR ELIMINATED

4. In paragraph 19 of the NPRM, the Commission asks for any other accounting or filing requirements that can be reduced or eliminated. CBT recommends the following items.

A. Further Threshold Changes

5. The revision of the company classification threshold for accounting purposes is just a first step in making significant regulatory revisions. The Commission should continue this effort by examining the threshold requirements for ARMIS reporting and for Cost Allocation Manual requirements. CBT believes that these thresholds should also be increased to a level which would allow companies with less than 2% of the nation's access lines to enjoy reduced reporting requirements. Changing these thresholds to \$7 billion will accomplish this, and will reduce the regulatory burdens on small and mid-size companies without compromising the Commission's ability to obtain necessary information. Even with a \$7 billion threshold for accounting and reporting requirements, the Commission will still receive detailed information for 90% of the industry.³

6. There have been many arguments made for changing the revenue threshold limits, and CBT will not take up the Commission's time by reiterating these arguments made by CBT, ITTA, USTA and others in previous filings.⁴ These pleadings, together with the Commission's long term, first hand experience make it totally clear and perfectly

³ NPRM at para. 4.

⁴ CBT comments in: Docket No. 96-17 at page 5; Docket No. 96-23 at page 2; Docket No. 96-193 at page 5; ITTA Petition for Forbearance, February 17, 1998 at page 11; USTA comments in Docket No. 96-193.

reasonable that the threshold limits, not only for accounting purposes but also for reporting purposes, should be raised to \$7 billion.

7. It is important to keep in mind that changing the threshold limits does not change the requirement that all companies continue to follow and comply with the Part 32, Part 43, and Part 64 rules. It is only the burdensome reporting requirements that will be eliminated.

B. Affiliate Transaction Rule Changes – Nonregulated Services

8. In the 1996 Citizens CAM Order, the Commission ruled that, “a carrier providing nonregulated services to the carrier’s nonregulated affiliates is subject to the Commission’s affiliate transaction rules”.⁵ CBT urges that this ruling be rescinded. Instead, the Commission should reinstate its previous interpretation and apply the affiliate transaction rules only to regulated services.

9. The application of the affiliate transaction rules to nonregulated transactions with nonregulated affiliates is unnecessary: nonregulated services are already removed from the regulatory process. That is, no cross subsidization can occur. Applying affiliate transactions rules to nonregulated services is an effort to twice remove the transaction and forces new cost and labor burdens on the carriers. This is oppressive to the ILECs without providing benefit or protection to ratepayers.

10. The current interpretation that the affiliate transaction rules apply to nonregulated services sold to nonregulated affiliates is clearly not needed and unquestionably not in the public interest. In carrying out its obligation under Section 11,

⁵ Memorandum Opinion and Order on Citizens Utilities Company Cost Allocation Manual, released on April 22, 1996, para. 10.

the Commission should repeal this interpretation and pronounce that the affiliate transaction rules apply only to regulated services.

C. Affiliate Transaction Rule Changes – Estimated Fair Market Value

11. CBT recommends that the affiliate transaction rules (47 CFR 32.27(c)) be reexamined and streamlined as part of the Commission's efforts to eliminate unnecessary requirements. Currently the rules provide the following valuation process for services provided between a carrier and its affiliate:

- 1) If a tariffed service, it is to be sold at tariff rates;
- 2) If not a tariffed service, then
 - a) Contract rates if in an agreement filed and approved by a state commission;
 - b) Prevailing market rate if a nonaffiliated market base exists; otherwise,
 - c) For services sold by a carrier to an affiliate: the higher of fully distributed cost or the estimated fair market value;
 - d) For services bought by a carrier from an affiliate: the lower of fully distributed costs or the estimated fair market value; except when the affiliate exists solely to provide services to members of the carrier's corporate family. Then the valuation shall be only at fully distributed costs.

For services not sold under an approved contract or at prevailing market rate, the requirement to make a comparison between fully distributed costs and estimated fair market value has placed an exceptional burden on CBT. This requirement has at a minimum doubled the amount of labor and costs required to value these services. The purpose of this requirement is not clear, and there are no benefits for the ratepayer.⁶

⁶ CBT clearly argued against the addition of "estimated fair market value" to the rules in its Petition for Reconsideration on CC Docket No. 96-150, filed February 20, 1997, and in its Reply to Oppositions to the Petition, filed April 16, 1997.

CBT urges the Commission to examine these affiliate transaction rules, and to remove the “estimated fair market value” comparison requirement. The fully distributed costs prevent any cross subsidization by recovering all direct and indirect (overhead) costs of the services.

D. Other Changes and Recommendations

12. CBT supports the NPRM accounting rule changes, and urges the Commission to view this as only the first of many changes to streamline its accounting and reporting regulations. On February 17, 1998, ITTA filed a Petition for Forbearance, and CBT believes that the granting of this petition would greatly reduce the unnecessary and duplicative requirements plus offer great savings to the ILECS. The petition addresses nine major areas:

- 1) Reporting thresholds for accounting requirements, CAM filings, and Audits;
- 2) ARMIS financial and operating reports;
- 3) Quality of service reports
- 4) Detailed tariff cost support requirements;
- 5) Section 214 applications for “new” lines;
- 6) Merger information requirements;
- 7) Part 69 waivers;
- 8) Separate affiliate requirements for interexchange services;
- 9) LEC-CMRS separate affiliate requirements

13. The regulations addressed in the petition are not needed to ensure fair and nondiscriminatory rates or to protect consumers, and they impose a costly burden on mid-size carriers which hinders their ability to compete, since the cost to comply with these

regulations is the same for a small company as it is for a large one. Therefore, the granting of this petition is in the public interest.

OTHER OPEN DOCKETS

14. The Commission currently has two open dockets that propose moving the accounting and reporting requirements in the opposite direction, toward increased unnecessary regulation. These dockets are proposing more detailed level accounts and a legion of new reports and reporting categories. The dockets are:

1. CC Docket No. 97-212, Amendments to the Uniform System of Accounts for Interconnection;
2. CC Docket No. 98-56, Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

These dockets are fundamentally inconsistent with the Commission's effort to carry out the charge issued in Section 11 to repeal or modify any regulation which is no longer in the public interest. CBT recommends that the Commission prepare its orders for these dockets in keeping with the purpose of this NPRM and Section 11 of the Communications Act to reduce and eliminate unnecessary regulation.

RAO LETTER 26

15. Responsible Accounting Officer Letter 26 ("RAO Letter 26") was released on May 6, 1998, with new reporting and formatting requirements for CAM Section V, Affiliate Transactions. The letter would eliminate 40% of the required CAM pages, but it would impose new detailed reporting requirements that more than offset any streamlining and savings.

16. RAO Letter 26 requires that the frequency of the transactions be identified using one of six descriptors: daily, weekly, monthly, quarterly, annually, or occasionally.

This doubles the number of previous descriptors. Instead of increasing the reporting burden, the Commission should be viewing this as an opportunity to eliminate unnecessary requirements. It does not impact valuation of the affiliate transactions, and has never proven to be a key data item in any audits.

17. Likewise, RAO Letter 26 requires a new listing of affiliates that the carrier does business with and will do business with. Obviously, the listing of future affiliates will never be 100% correct and will need to be changed, but how often? This new requirement will undoubtedly create many updating/timing questions. Aside from this, there are no benefits to having such a list. There have never been any audit or procedural findings over the last decade that would indicate that this extra information is necessary. Moreover, forcing ILECs to disclose future affiliate transactions provides competitors with sensitive information about the ILECs' business plans that could place it at a strategic disadvantage.


18. Several companies have already petitioned the Commission to review and reconsider this action. In light of the Commission's goals and efforts in this NPRM, and considering the added burden it would impose on the carriers with no apparent benefits, CBT recommends that RAO Letter 26 be retracted.

CONCLUSION

19. CBT applauds the Commission's sensitivity and recognition that mid-size companies face unique operating problems. CBT totally supports all of the proposed changes in the NPRM. However, there are many more revisions, modifications, and eliminations which can be made that are in the public interest and yet will not hinder the Commission's oversight responsibilities. CBT urges the Commission to go beyond the

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current proposals and further streamline its regulations for the new and current
competitive telecommunications marketplace.



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